

1998**Beneficiary's Share of Income, Deductions,
Credits, etc.****K-1 (541)**

For calendar year 1998 or fiscal year beginning month _____ day _____ year 1998, and ending month _____ day _____ year _____

Complete a separate Schedule K-1 (541) for each beneficiary.

Name of estate or trust:

Beneficiary's social security number, California corporation number or FEIN

Estate's or trust's federal employer identification number (FEIN)

Beneficiary's name, address and ZIP Code

Fiduciary's name, address and ZIP Code

Caution: Refer to the instructions for Schedule K-1 (541) before entering information from this schedule on your return.

(a) Allocable share item	(b) Amount from federal Schedule K-1 (1041)	(c) Adjustments	(d) Total amounts using California law (Combine column (b) and column (c))	(e) California source amounts and credits
1 Interest				
2 Dividends				
3 Net capital gain or (loss)				
4 Annuities, royalties and other non-passive income before directly allocable deductions (itemize):				
a Depreciation				
b Depletion				
c Amortization.				
5 Trade or business, rental real estate and other passive income (itemize):				
a Depreciation				
b Depletion				
c Amortization.				
6 Income for alternative minimum tax purposes.				
7 Income for regular tax purposes. Add line 1 through line 5				
8 Adjustment for alternative minimum tax purposes. Subtract line 7 from line 6				
9 Adjustments and tax preference items:				
a Accelerated depreciation.				
b Depletion				
c Amortization.				
d Exclusion items.				
10 Distributions in the final year of estate or trust:				
a Excess deductions on termination. Attach computation				
b Capital loss carryover				
c Net operating loss (NOL) carryover for regular tax purposes.				
d NOL carryover for alternative minimum tax purposes				
11 Other (itemize):				
a Trust payments of estimated tax paid by the trust credited to you				
b Tax-exempt interest				
c Taxes paid to other states. Attach Schedule S, Other State Tax Credit				
d Other credits				
e _____				

1998 Instructions for Schedule K-1 (541)

Beneficiary's Share of Income, Deductions, Credits, etc.

A Purpose

File Schedule K-1 (541) with Form 541, California Fiduciary Income Tax Return, to report the beneficiary's income from the estate or trust. California law generally follows federal law.

B Who Must File

The fiduciary (or one of the joint fiduciaries) must file Schedule K-1 (541) for each beneficiary. A copy of each beneficiary's Schedule K-1 (541) must be attached to Form 541 filed with the Franchise Tax Board (FTB). The fiduciary also must give each beneficiary a copy of his or her respective Schedule K-1 (541). One copy of each Schedule K-1 (541) must be retained for the fiduciary's records.

As a payer of income, the estate or trust is required under Revenue and Tax Code (R&TC) Section 18624 to request and provide a proper identifying number for each recipient of income. Enter this number on all Schedules K-1 (541) when the estate or trust files its return. Individuals and business recipients are responsible for giving the estate or trust their social security number, California corporation number, Secretary of State file number or federal employer identification number (FEIN) upon request. The estate or trust may use federal Form W-9, Request for Taxpayer Identification Number and Certification, to request each beneficiary's identifying number.

C Penalty

Under R&TC Section 19183 (former Section 18681.1(c)), the estate or trust is charged a \$50 penalty for each failure to provide a required taxpayer identification number, unless reasonable cause is established for not providing it. If reasonable cause exists, please explain in a signed affidavit and attach it to Form 541.

D Substitute Forms

If the estate or trust does not use an official FTB Schedule K-1 (541) or a software program with an FTB approved Schedule K-1 (541), it must get approval from the FTB to use a substitute Schedule K-1 (541). The estate's or trust's substitute schedule must include the Beneficiary's Instructions for Schedule K-1 (541) or other prepared specific instructions. Get FTB Pub. 1098, Guidelines for the Development and Use of Substitute, Scannable and Reproduced Tax Forms, for more information.

E Taxable Year

Beneficiary's taxable year. The beneficiary's income from the estate or trust must be included in the beneficiary's return for the taxable year during which the taxable year of the estate or trust ends.

Prior Year. Do not include the beneficiary's income amounts that were deducted on Form 541 for an earlier year and that were credited or required to be distributed in that earlier year.

F Beneficiary's Income

If no special computations are required, use the following instructions to compute the beneficiary's income from the estate or trust.

California reporting requirements are the same as federal for:

- Income;
- Character of income;
- Allocation of deductions;
- Allocation of credits; and
- Gifts and bequests.

In Schedule K-1 (541), column (b), enter the amounts from federal Schedule K-1 (1041). In column (c), enter the difference between the California and federal totals. In column (d), enter the California total amount, which is the result of combining column (b) and column (c). In column (e), enter the California source amount. Prepare and give a Schedule K-1 (541) to each beneficiary of the estate or trust.

Income of nonresidents from bank accounts, stocks, bonds, notes and other intangible personal property is not income from sources in California unless 1) the property has acquired a business situs in California or 2) orders with brokers have been placed so regularly as to constitute "doing business" (R&TC Section 17952). Include in column (e) only income from intangible property that is income from sources within California. Attach a separate schedule to each beneficiary's Schedule K-1 (541) showing intangible income (i.e., interest, dividends, capital gains from the sale of stocks, bonds, etc.) whose source is dependent upon the residence or commercial domicile of the beneficiary.

For nonresidents, income from a trade or business conducted within and outside California is apportioned or allocated to California in accordance with Title 18, Cal. Code Reg. Section 17951-4(c).

G Passive Activities

The limitations on passive activity losses and credits under Internal Revenue Code (IRC) Section 469 apply to estates and trusts. Estates and trusts that distribute income to beneficiaries are allowed to allocate depreciation, depletion and amortization deductions to beneficiaries. These deductions are called "directly allocable deductions."

If items of income (loss), deduction or credit from more than one activity are reported on Schedule K-1 (541), the fiduciary must attach a statement to Schedule K-1 (541) for each passive activity.

H Nonresident Beneficiaries

It is necessary to compute the beneficiaries' share of income and deductions, disregarding the nonresident status of any particular beneficiary. If the beneficiary of an estate or trust is a resident of California on the last day of the estate's or trust's taxable year, the beneficiary's share of income or losses of the estate or trust for that taxable year is taxable to California. Nonresident beneficiaries are taxed only on income that is derived from sources within California. Where an estate or trust derives income from both within and outside California, it is necessary for the fiduciary to determine what portion of the beneficiary's share of income of the estate or trust is from within and outside California. The amounts derived from or attributable to income from sources within California are to be properly allocated and reported on the Schedule K-1 (541). The fiduciary must clearly show how the allocation was made. Enter the beneficiary's share of income and deductions from sources within California on Schedule K-1 (541).

Payments to nonresidents of income having a business or taxable situs in California are subject to withholding of taxes. For more information, get the Instructions for Form 592, Form 592-A and Form 592-B.

General Summary of Treatment for Sourcing Specific Nonbusiness Income Items

For California tax purposes:

- Compensation for personal services has a source where the services are performed.
- Interest and dividends generally have a source at the taxpayer's state of residence.
- Gains and losses from the sale or exchange of real and tangible personal property have a source where the property is located.
- Income from intangible personal property generally has a source at the taxpayer's state of residence. Rents and royalties have a source where the property is located.
- Pensions have a source where the services were performed. However, the gross income of a nonresident does not include qualified retirement income (including pensions) received on or after January 1, 1996 for any part of the taxable year during which the taxpayer was a nonresident.

Generally, income from a business, trade or profession is sourced as follows:

- If the operations are conducted wholly within this state, the income has a California source.
- If the operations within California are so separate and distinct from the operations outside of California that taxable income can be separately accounted for, only the

income from within California must be included in California source income.

- If the trade or business carried on within California is an integral part of a unitary business carried on outside of California, the entire net income must be reported and apportioned or allocated in accordance with the provisions of the Uniform Division of Income for Tax Purposes Act as contained in Sections 25120 through 25139.

Partnership, LLC and S corporation income/loss, is apportioned or allocated the same as any other business. If the estate or trust is a partner, member or shareholder of a partnership, LLC or S corporation, income sourced to California is generally included in column (e) of the Schedule K-1 (565), K-1 (568) or K-1 (100). For more detailed information, review Title 18 California Code Regulations Section 17951.4 and related tax codes.

See Title 18, Cal Code Reg. Sections 17951-1(c), 17951-2 and 17953 regarding taxability of distributions to nonresident beneficiaries.

See instructions regarding withholding at source in General Information P of the Form 541 Booklet, if California source income is being distributed to a nonresident beneficiary.

Specific Line Instructions

Please round cents to the nearest whole dollar.

Line 1 and Line 2

Get the federal instructions for Schedule K-1 (1041).

Line 3 – Enter the combined amount from federal Schedule K-1 (1041), line 3 and line 4c.

Note: Gains or losses from the complete or partial disposition of a rental, rental real estate or trade or business activity that is a passive activity must be shown as an attachment to Schedule K-1 (541).

Line 4 – Enter the beneficiary's share of annuities, royalties or any other income that is **NOT** subject to any passive activity loss limitation rules at the beneficiary's level. Enter the beneficiary's share of these deductions attributable to each activity reported on line 4 and line 5.

Line 6 – An estate or trust cannot pass through the alternative minimum taxable income (AMTI) exclusion to the beneficiary. The Schedule P (541) for this estate or trust must be recalculated leaving line 7b blank. This will eliminate the effect of the AMTI exclusion but allow other items of adjustment or tax preference to be passed through to the beneficiary. The recalculated number on Schedule P (541), line 10, must be entered on Schedule K-1 (541), line 6.

The estate or trust (except a common trust fund) may not pass through the exclusion for qualified small business stock (R&TC Section 18152.5) to a beneficiary. Therefore, it would also not pass through the adjustment related to this exclusion to the beneficiary. Any adjustment made to the estate or trust's income (except for a common trust fund) for alternative minimum tax purposes for the qualified small business stock exclusion should be eliminated when completing the beneficiary's Schedule K-1.

Line 9a through Line 9d

Enter the amounts from Schedule P (541). Get the federal instructions for Schedule K-1 (1041) for more information.

Line 10a through Line 10d

If this is the final return, enter on line 10 the beneficiary's share of any:

- Excess deductions on termination;
- Capital loss carryover; or
- Unused net operating loss carryover for both regular and alternative minimum tax, if this is the last year eligible.

Line 11a through Line 11e

Enter the beneficiary's share of each item for which there is no designated line on Schedule K-1 (541). Attach a separate sheet for each item reported on line 11 showing the computation. Items that must be reported on this line include the allocable share, if any, of items listed on line 11a through line 11d.

Line 11b – Enter tax-exempt interest received by the estate or trust (including exempt-interest dividends received as a shareholder in a mutual fund or other regulated investment company).

Line 11c – Enter taxes paid to other states reported on Schedule S, Other State Tax Credit.

Note: Attach a copy of the return filed with the other state, evidence of payment and a copy of Schedule S to support the amount of tax paid.

Line 11d – Enter on an attached schedule each beneficiary's allocable share of any credit or credit information that is related to a trade or business activity.

Line 11e – Enter any other item that is not included above such as:

- Gross farming and fishing income; or
- Investment income (IRC Section 163(d)).

The estate or trust may need to report supplemental information that is not specifically requested on the Schedule K-1 (541) separately to each beneficiary.

If the estate or trust is claiming tax benefits from an enterprise zone (EZ), Los Angeles Revitalization Zone (LARZ), Local Agency Military Base Recovery Area (LAMBRA), Manufacturing Enhancement Area (MEA), or Targeted Tax Area (TTA), it should give the beneficiaries their distributive share of the business income and business capital gain or

loss apportioned to the EZ, LARZ, LAMBRA, MEA or TTA on this line.